Greece's Century-Long Subjugation

The battle between Athens and Brussels goes back much further than the Eurozone.

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Alexis Tsipras, Prime Minister

With the next round of national elections coming up Sunday, Greek voters are casting around for a new champion to defend them against European bankers following the left-wing SYRIZA Coalition's abrupt concessions last spring. But the Greeks have been without an effective champion for far longer than most people realize. Many critics trace what Greece is going through today—debt crisis, infighting, panic, economic devastation and above all the manipulation of the nation's fate by larger European powers—to the start of the Eurozone a decade and a half ago. In fact these problems go back nearly two centuries to the very beginnings of the Greek state, which was founded in 1830. Earlier this year Alexis Tsipras, the leader of the

SYRIZA Coalition, gave his acceptance speech as prime minister at the University of Athens standing directly below an image of King Otto, a Bavarian prince imposed on Greece in 1832 by the European powers of Great Britain, France and Austria Hungary, with an assist from Russia, to protect their interests. It is hard to escape the symbolism of that image—of Tsipras and Otto in the same picture. The history of King Otto's curious reign, and Tsipras' massive problems today in facing down the European institutions, have many discomfiting parallels.

Just as they were in 1830, Greece and its economy are still being controlled by the European Powers although now in the form of the European institutions, which are in turn controlled by Germany. And just as in the time of King Otto, when the European Powers sought—and largely exercised—political and geopolitical control over Greece, today, under the terms of the bailout to which Greece had to agree in July it once again faces the prospect of conceding a significant measure of national sovereignty to the European Commission, the European Central Bank (ECB) and the International Monetary Fund (IMF). The ultimate source of this pressure? Germany, once again.

It hardly seems possible that so little has changed, when so much else has. The seminal event in modern Greek history is the War of Independence, which began in 1821 against the Ottoman Empire and ended in 1830 with the establishment of the Greek state. For geo-strategic reasons, Great Britain enthusiastically supported Greek independence. Inspired by the poet, Lord Byron, prominent friends of Greece, referred to as philhellenes, formed the London Greek Committee to encourage the British government in this policy. To prosecute the war, the Greeks needed funds to support their military. The Greeks obtained two loans from a London banking house. Because of the obvious risks of default, the loans were secured by all of the revenues and all of the national property held by the Greeks and of Greece once it was independent.

Upon independence, the Greek leader and soon-to-be first head of the Greek state, John Kapodistrias, formed a republican democracy, a rarity in that era. But even before the Greek state was formally established, Kapodistrias had to stop repaying the loans. Great Britain, France and Russia offered to guarantee another loan as long as Greece could obtain a loan from the private sector—which Greece did, from a French banking house. The lenders established a board of control, with no Greek representation, which disbursed the funds as it saw fit again without any Greek participation. The board ended up manipulating the operation of loans to the advantage of the lenders and contrary to the interests of Greece. It was eventually dissolved after it was vocally criticized by British philhellenes.

But there was another problem: In those years a republican democracy was anathema to the European Powers. Under the London Convention of 1832 Great Britain, France, Bavaria and Russia became the guarantors of Greek independence and, consequently, overseers of the Greek state. As guarantors they considered themselves entitled to create a Greek government in their own image. They chose a 17-year-old member of the extended European royal family, Prince Otto of Bavaria, to be king. Approved pro forma by the Greek National Assembly, Otto arrived in Greece aboard a British warship along with a retinue of German administrators and mercenaries. A council of German administrators approved by the guarantor European powers effectively governed Greece. It took control of the state finances, which included paying back the independence war loans for the benefit of the French banks and guarantor European Powers.

Although his reign began with optimism, King Otto’s German administrators were tyrannical and arbitrary. Also, because of the onerous repayment terms of the independence war loans, the Greek economy was already in a deep depression when Otto became the king. King Otto and his German administrators wielded near absolute power. The Greek people finally demanded that his power be limited. Contemporary accounts report that a crowd of people gathered in front of the king's palace demanding a constitution. King Otto reluctantly agreed. The Constitution of 1844 established Greece as a constitutional monarchy and by the standards of the mid-19th century, it was a liberal document. Unfortunately, King Otto acted almost immediately to undermine it, but he did do one thing that was popular. The European Powers demanded that Greece agree to terms requiring a surplus from which the loans would be repaid and that certain customs revenues be assigned directly to the lenders for repayment. King Otto rejected these demands and suspended payments. His German administrators advised him that he must stay in the good graces of the European Powers and agree to the demands. Instead, King Otto fired his German administrators.

Things got even more complicated when repayment of the independence war loans became intertwined with international issues arising from the Crimean War. Greece sought to ally with Russia, its fellow Orthodox nation, against Great Britain and France. Because he supported Russia and the suspension of repayments, King Otto lost the support of Great Britain and France. At the same time, despite having stood up to the European Powers, he lost his domestic support because of his ill-conceived efforts to undermine the constitution. His reign was further compromised by the fact that he was unable to sire an heir and his refusal to convert to the Greek Orthodox religion. Although he never formally abdicated, King Otto departed from Greece in 1862 just as he had arrived 30 years before, aboard a British warship.

Under the authority of the London Convention of 1832, the guarantor European Powers sought another candidate for the Greek crown. The European powers adopted the policy of Queen Victoria, monarch of the preeminent power of the day, which was to place family members who were related to her and to each other on the thrones of Europe so that any international crisis could be handled as a family matter. (Fortunately for Queen Victoria, she did not live to see a family spat turn into the First World War).

This time the guarantor European powers appointed to the Greek throne a prince of the Danish royal house who fit the Victorian policy perfectly. His sister was married to the Prince of Wales, who became King Edward VII of Great Britain, and his wife was a family member of the Romanov dynasty and a first cousin of Czar Alexander III. He was crowned George I in 1863, assuming the role of a true constitutional monarch by remaining above the parochial and pedestrian machinations of the Greek politicians. It was a policy his descendants did not necessarily follow.

During the reign of King Otto, Greece had embarked on a national policy called the Great Idea. It would dominate Greek political life for more than a century—and inadvertently generate vast amounts of debt for almost that long. When the Greek state was established, its territory was limited to the Peloponnese and a narrow strip along the northern coast of the Gulf of Corinth, but most ethnic Greeks lived outside of the Kingdom of Greece in territories that were part of the Ottoman Empire. The objective of the Great Idea was to “redeem” the ethnic Greeks who lived outside of the borders of Greece. This was to be accomplished not by bringing them into the borders of the Kingdom of Greece but rather to expand the borders of Greece to encompass the Ottoman territories where the ethnic Greeks lived.

Although the historical record is not clear, by 1878 the independence war loans were discharged by a combination of repayment, debt relief and replacement loans. But now, to accomplish the Great Idea, Greece had to maintain a military capable of waging the wars necessary to redeem the Greeks living in the Ottoman Empire. Beginning in the 1880s, Greece embarked on a debt cycle that would make the independence war loans look quaint.

One major problem was that for a country with such geopolitical ambitions, Greece was limited to an inefficient agrarian economy. With revenues from agricultural exports, particularly currants, Greece was just able to balance the loans it incurred for military actions in the 1880s with the export revenues. Then in 1892, the demand for currants collapsed. Again Greece had to borrow from external sources. The economy was so weak that Greece was unable to service or repay the loans from domestic revenues. Greece had to take out more loans to service and pay back the previous loans. In 1897, seeking to be united with Greece, the Greeks of the island of Crete revolted against the Ottoman Empire and Greece sent troops to support the insurgents. The revolt was brutally suppressed and the Greek army was decisively defeated. More huge debts followed, and Greece had to take out another loan to pay an indemnity to the Ottoman Empire imposed by Great Britain and France, which had mediated the peace between Greece and the Ottomans.

Led by Great Britain, six European powers again forced Greece to accept a financial control regime based in Athens. Referred to as the International Finance Commission (IFC), it was to monitor the national budget and tax collection. Greece had to assign directly to European lenders the revenues from state monopolies such as customs duties, tobacco excises, stamp taxes, salt, and matches, which would otherwise be used for domestic investment and development. The monopoly revenues were too low to even service the loans. The powers of the IFC, which lasted nearly a century, from 1898 until 1978, gradually expanded to include unilaterally repaying the loans from Greek domestic revenues and taking out additional loans on Greek credit to pay the previous loans, all without the consent of the Greek government.

All during this time, Greece continued to pursue the Great Idea, sinking the country into the red again and again. From 1900 to 1922, the Great Idea entered into two new phases. In the first, Greece emerged victorious in the Balkan War of 1912. Although it incurred additional war debt, Greece nearly doubled its territory into what is now northern Greece made up of parts of Epirus, Thessaly, Western Thrace and the important commercial cities of Thessaloniki and Kavala. These areas had arable land and were rich in agricultural production, increasing revenues to the Greek state enough to offset at least some of the war loans. But the other phase was an abject disaster for Greece. Following the end of the First World War, Greece sought to redeem the ethnic Greeks who lived in and around the commercial cities of Asia Minor and Eastern Thrace, which are today in Turkey. The army that Greece sent into Asia Minor was decisively defeated by the forces of the nascent Republic of Turkey. Under the treaty ending the war, Greece was obligated to exchange ethnic populations with Turkey. About 1.2 million ethnic Greeks and other Orthodox Christians were forced to leave Turkey and settle in Greece. About 500,000 ethnic Turks and Muslims were forced to leave Greece and settle in Turkey. The Greek economy, which was already exhausted from ten years of continuous war, had to absorb a refugee population which was almost one fourth of its then population.

Then came the Second World War, which fundamentally changed the debt structure of Greece. The country emerged from the Second World War with a devastated economy that was further hit by a bitter civil war between the pro-Western government and the Communists. Thanks to a combination of the Marshall Plan, investment in infrastructure, and remittances from expatriate Greeks, the Greek economy improved in the 1950s. Greece was placed firmly in the Western camp during the Cold War when it joined NATO along with Turkey in 1954. Through the 1950s and 1960s, living standards in Greece improved. Although there was some interference by the then-anachronistic IFC, domestic revenues increased and were used for infrastructure projects. Greece did incur loans during this period, but they were nowhere near the magnitude of the pre-war loans.

Although the Great Idea had waned as a matter of national policy, the cost of defense continued to drain Greek finances in the postwar period. Even though Greece and Turkey were NATO members ~~states~~ tensions remained high as Turkey disputed (and continues to dispute) the water boundaries and continental shelf of Greece in the Aegean Sea.

The last act of the Great Idea occurred on the island of Cyprus, which has a majority ethnic Greek population. In 1974, the remnants of the Greek military junta enticed a small group of like-minded Greek Cypriots to overthrow the democratically elected government of the Republic of Cyprus. They mounted an ill-conceived coup intended to unite Cyprus with Greece. Even though the legitimate government of Cyprus was quickly reestablished, Turkey invaded Cyprus ostensibly to protect the minority Turkish Cypriot community. Turkey has occupied the northern portion of Cyprus since then. Because of the continued occupation of Cyprus and regular violations of Greek airspace and territorial waters by Turkey, Greece has had to maintain an expensive military. Even now, Greece spends more on defense than the two percent of ~~its~~ GDP minimum mandated by NATO. In addition to Greece, the only other NATO members that spend more than the two percent minimum are the United Kingdom, the United States and Estonia.

And so King Otto, the conservative monarch, and Alexis Tsipras, the most left wing prime minister in Greek history—two leaders from different eras who would seem to have nothing in common personally—have shared in the same way in the fate of their nation. Both Otto and Tsipras assumed the leadership of Greece when Greece was already mired in debt. However the image of the stern visage of King Otto above the triumphal gesture of Tsipras may be interpreted, Greece and the European institutions are inextricably bound together through the Eurozone and the European Union. And the future is not yet settled: The current memorandum is only an agreement in principle. The details remain to be negotiated and implemented, but each side must learn to give a little. The European institutions must dispense with the notion of punishing Greece, euphemistically called “moral hazard.” The Greeks must dispense with the notion that every measure or reform required by the European institutions infringes on national sovereignty. And both must learn from history.

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